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DEPARTMENT OF ENERGY

NOTIFICATION

The 21st October 2010

SUBJECT—Capital Expenditure (CAPEX) Programme for the Distribution Companies of Orissa

No. 9230—R&R-I-06/2010-En.—Orissa is the pioneer in the country to bring reform in the power sector by enacting 'The Orissa Electricity Reforms Act, 1995' & establishing Orissa Electricity Regulatory Commission (OERC). The objective of reform was to encourage private sector participation in electricity generation, supply and distribution in order to supplement Government's inadequate resources for development of the power sector. In the process of reform the erstwhile OSEB was unbundled and generation, transmission and distribution has been entrusted to separate entities. At present the distribution system has been entrusted to three Private Companies namely, WESCO, NESCO & SOUTHCO and one utility namely Central Electricity Supply Utility (CESU).

The entire electrical network was as old as 30—35 years by the time it was privatised in 1999. Most of the electrical networks are now almost 45 years old. After reform and restructuring of electricity sector in 1996 Government subsidy has been withdrawn and no transitional support has been given to the sector. As a result there has been no infusion of funds to the distribution sector leaving the distribution networks in a dilapidated condition.

Since the period of reform the consumer base has doubled from 13 Lakh consumers in 1999 to 26 lakh in 2008-2009 & the input drawl of energy has increased from 10,000 MU in 1999-2000 to 20,000 MU in 2008-2009. But there has been hardly any upgradation & addition to the existing distribution asset during this period to keep pace with increased demand.

In pursuance of National Electricity Policy & National Tariff Policy to provide power to all households by 2012 GoI launched a massive programme under RGGVY Scheme and State Government also launched a similar programme under BGJY & BSJY Scheme to cover hamlets and urban slums not covered under RGGVY. After implementation of these massive electrification programmes in the coming two years around 54(Fifty-Four) Lakh households including 36(Thirty-Six) lakh BPL households will be electrified and added to the existing consumer base of 26 lakhs, thereby increasing to 80 (Eighty) lakhs which is more than three times the existing base. The existing feeder network at 33 KV level would be grossly inadequate to meet the huge additional load.

Unless there is a substantial investment in Capital Expenditure for system improvement it will be extremely difficult for the distribution sector to cater to the fast growing demand of the State and to arrest the High Technical and Commercial Loss. Any investment proposal is quite feasible as each 1% (one per cent) reduction in AT&C loss would mean additional generation of about Rs. 50 crore revenue per annum.

The Sovan Kanungo Committee on review of Power Sector Reforms had recommended financial support of Rs. 3,240 crore. The Orissa Electricity Regulatory Commission (OERC) while approving the Business Plan of the DISCOMs for the period 2008-2009 to 2012-2013 has envisaged a total investment of RS. 5,000 crore by FY 2013 by both Government of Orissssa & DISCOMs.

Government of Orissa had placed a proposal before 13th Finance Commission for availing grant for upgradation of standard of services in transmission and distribution in power sector by investment in the distribution networks. The Finance Commission after carefully examining the issues agreed to provide Rs. 500 crore for improvement of distribution sector as grant on the condition that the remaining Rs.500 crore is to be contributed by the State Government, GRIDCO and the DISCOMs in equal proportion.

After careful consideration of the demand for investment in distribution sector the State Cabinet in their 10th meeting held on the 5th October 2010 has approved the investment proposal of Rs. 2,400 crore in distribution sector which includes the grant of Finance Commission, State budgetary support and counterpart funding by the DISCOMs with the following guidelines to be followed in execution of the scheme.

2. Scope of the Programme :

The focus of the scheme shall be on System Improvement, establishment of reliable system, reduction of AT & C loss to a sustainable level and improvement of quality of supply to the consumers of the State.

The project coverage includes renovation/modernization of existing & installation of new 33/11 KV primary sub-stations and 11/0.4 KV distribution sub-stations, re-conductoring of lines at 33 KV and below, load bifurcation, feeder separation, HVDS (11 KV) lines, aerial bunched conductoring in theft prone areas, replacement of electromagnetic energy meters with tamper proof electronic meters, installation of capacitor banks, energy audit, IT system implementation, Mobile service centers, distribution sub-station automation with SCADA system, ring fencing of different project areas and such other measures for attaining the above objective.

3. Funding Mechanism :

- 3.1.1. The scheme envisages investment of Rs. 2,400 crore to be spent under this Scheme over the period of four financial years, i. e. FY 2010-2011 to FY 2013-2014, out of which Government of Orissa will provide Rs.1,200 crore and DISCOMs will invest Rs.1,200 crore from their own source/or through market borrowing as per the following table :

3.1.2.

Yearwise CAPEX Programme

					(Rs. in Crore)
Financial Year	2010-11	2011-12	2012-13	2013-14	Total
State Government (out of which)	300.00	400.00	250.00	250.00	1200.00
(a) FC Grant	0.00	200.00	150.00	150.00	500.00
(b) SS to FC Grant	0.00	66.67	50.00	50.00	166.67
(c) Loan to GRIDCO for counterpart funding to FC Grant	000	66.67	50.00	50.00	166.67
(d) State's own contribution	300.00	66.66	0.00	0.00	366.66
DISCOMs (out of which)	0.00	200.00	400.00	600.00	1200.00
(a) Counterpart DISCOMs share for FC Grant	0.00	66.67	50.00	50.00	166.67
(b) DISCOM's contribution	0.00	133.33	350.00	550.00	1033.33
Total CAPEX	300.00	600.00	650.00	850.00	2400.00

Out of the State Government Support of Rs. 1,200 crore—

- (a) Grant of Rs. 500 crore from 13th FC is to be initially passed on as loan with 0% interest.
 - (b) Rs. 166.67 crore of matching State Share against 13th FC grant as loan with 0% interest.
 - (c) Rs.166.67 crore of Loan to GRIDCO for 1/3rd counterpart funding to FC Grant with 4% interest.
 - (d) Rs. 366.66 crore as budgetary support in shape of soft loan with 4% interest.
- 3.1.3. Loan of Rs. 666.67 crore bearing 0% interest (Sl. 3.1.2. "a" & "b") may be considered for conversion into grant after full utilization of the loan for the specified purpose and achievement of loss reduction target of 3% p.a.

4. Mode of Disbursement and Repayment :

- 4.1. GoO shall release funds to GRIDCO and GRIDCO in turn shall pass on the same to Distribution Companies on On-lending basis, i.e. with the same terms and conditions based on which the funds are released to GRIDCO by the State Government.
- 4.2. The loan will be released in two equal instalments every year. The second instalment of State Government support in each year except for the first year, i.e. 2010-2011 will be released only if the AT & C loss reduction target in the previous year is achieved and DISCOMs have arranged counterpart fund for the CAPEX.
- 4.3. The repayment of loan shall be secured through payment security mechanism of ESCROW on receivables of DISCOMs from sale of power.

- 4.4. The loan will have a moratorium period of 5 (Five) years for repayment of principal as well as Interest. The loan would be repaid by DISCOMs through GRIDCO in 15 (Fifteen) years starting from the 6th year, i.e. from the subsequent year following the expiry of the moratorium period.
- 4.5. The legal documents for State Government support will be made through two sets of agreement viz. one loan agreement between State Government & GRIDCO and another subsidiary loan agreement between GRIDCO & each DISCOM.

5. Project Formulation and implementation :

- 5.1. The DISCOMs shall prepare Detailed Project Reports (DPRs) for each of the project area and shall file before OERC for approval. At the same time a copy of the DPR shall be forwarded to Nodal Agency who shall place the same before the Monitoring Committee for sanction of the funds.
- 5.2. DISCOMs shall implement projects sanctioned under this programme through a fair efficient and transparent process strictly within the time schedule to ensure quality and timely completion of the project.

6. Nodal Agency :

- 6.1. GRIDCO will act as 'Nodal Agency' for the implementation of the programme under the overall guidance of the Department of Energy, Govt. of Orissa. It will co-ordinate with agencies involved such as Department of Energy, GoO, Department of Finance, GoO, DISCOMs and Monitoring Committee in the matter of sanction of the DPRs, release of funds, monitoring end use of loan and recovery of principal & interest through a suitable ESCROW mechanism.
- 6.2. It shall appoint a team of officers/ consultants/agencies with requisite experience and expertise to monitor the quality of the project implementation.
- 6.3. It shall appointment Third Party Independent Evaluation Agencies (TPIE) for verification and validation of baseline data and subsequent verification of AT&C loss figure during the implementation of the programme.
- 6.4. GoO shall provide a grant for an amount equal to 0.5% of the total financial assistance (i.e. Rs. 6.00 crore) to Nodal Agency i.e. GRIDCO to meet the expenses relating to project monitoring, quality checking, verification of baseline data, evaluation of performance, etc. This grant amount shall be over and above the financial assistance to DISCOMs.

7. AT & C Loss Reduction Target :

The DISCOMs shall be required to achieve the AT & C loss reduction target of minimum of 3% p.a. in the project area during the implementation period. The Detail Project Report (DPR) may specify the yearwise AT & C loss reduction target calculated @3% per year for the total project period on cumulative basis.

8. Conversion of Loan to Grant :

In order to incentivize the DISCOMs to perform efficiently & effectively Rs. 666.67 crore zero interest bearing loan shall be convertible to grant on *pro rata* basis subject to achievement of AT & C loss reduction target of 3% per annum and after full utilisation. The loan of Rs. 666.67 crore carrying zero per cent interest consists of Rs. 500 crore FC grant & Rs.166.67 crore, State Government Counter part funding to FC grant. The conversion would take place over a period of five years. The first year would be the year starting after one year following the year of disbursement of each tranche of loan. The conversion will be proportionate to the ratio of actual percentage of reduction of annual AT & C loss *vis-a-vis* annual target reduction of AT & C loss at the end of each financial year.

9. Monitoring Committee :

In order to oversee the implementation of the project in a systematic manner as per the Schedule, a monitoring committee will be constituted by GoO mainly comprising of the following members :—

1. Commissioner- <i>cum</i> -Secretary, Department of Energy, GoO.	..	Chairman
2. Representative of Finance Department, GoO	..	Member
3. Representative of P & C Department, GoO	..	Member
4. Managing Director of GRIDCO	..	Member
5. Chief Electrical Inspector (T & D)	..	Member
6. MD/CEO/VP of WESCO, NESCO, SOUTHCO & CESU	..	Member
7. Finance Advisor of Department of Energy	..	Member
8. Additional/Joint Secretary, Department of Energy	..	Member-Convenor

The Committee will meet as frequently as required or at least once in a month and take stock of progress of work and sort out the bottlenecks in implementing the project, if any.

10. Third Party Monitoring and Evaluation for performance :

- 10.1. Nodal Agency shall appoint Third Party Independent Evaluating Agencies (TPIEA) for monitoring/evaluation of the following aspects of performance of DISCOMs.
- 10.2. Distribution company shall ring fence each identified project area at the beginning of the programme. Thereafter, Annual AT & C loss figures of project areas/utility as a whole during the implementation of the project shall also to be evaluated by them on annual basis during the implementation of the project.
- 10.3. The representatives of Third Party Organizations having expertise in inspection of materials relating to power sector shall make joint inspection with DISCOMs Officer(s) of the materials/equipments during the process of manufacturing/pre-dispatch stage, on receipt of the materials equipments at site/store as well as during execution of the project.

11. Loan Agreement, Subsidiary Loan Agreement, Procurement Guideline, Standard Bidding Documents & Technical Specifications :

The Loan agreement between GoO & GRIDCO and Subsidiary Loan agreement between GRIDCO & each DISCOM, Procurement Guideline, Standard Bidding Documents, Technical Specification and such other relevant guideline(s)/document(s) as may be required for effective implementation of the scheme will be issued by the Energy Department from time to time.

12. Procurement Committee :

The DISCOMs shall follow a transparent procurement process as per the prescribed procurement guideline. Each DISCOM shall have a Procurement Committee comprising of MD/ CEO/VP, Head of Finance wing, Head of Technical wing, a nominee Director of GRIDCO to the DISCOM Board or their authorized representative and a representative of GoO in Energy Department, who shall follow the procedure for procurement of materials and award of contracts.

By order of the Governor

P. K. JENA

Commissioner-*cum*-Secretary to Government